

PERAC AUDIT REPORT



Newburyport Contributory Retirement System

JAN. 1, 2001 - DEC. 31, 2003 | PERAC 03: 10-067-04



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

January 27, 2005

The Public Employee Retirement Administration Commission has completed an examination of the **Newburyport** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **2001** to December 31, **2003**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Robert Madison and Harry Chadwick who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Newburyport Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

1. Annuity Reserve Interest

In CY 2002, the Annuity Reserve Fund Interest Calculation included a thirteenth month of interest of \$10,642.07. Additionally, this amount also accrued interest of \$319.26. The \$10,961.33, in total, overstates the balance in the fund at the end of CY2003.

Recommendation:

A journal entry is necessary to adjust \$10,961.33 from the Annuity Reserve Fund to correct this error from CY 2002. The adjusting entry would debit the Annuity Reserve Fund and credit the Pension Reserve Fund for interest improperly recorded in CY2002. This entry should be made in the current month of CY 2004.

Board Response:

A journal entry was made in June 2004 to debit the Annuity Reserve Fund and credit the Pension Fund interest.

2. Appropriations

The appropriations in FY 2001 and FY 2002 appear to have been overpaid by \$22,412.61 and \$77,634.78, respectively. It appears that other monies may have been included in the appropriation account. Receipts of appropriation monies to Pension Fund Appropriation account number 4894 have been overstated, and other general ledger accounts have been understated.

Recommendation:

The Director should review appropriation payments made and booked in FY 2001 & 2002. Funds received and booked to incorrect ledger operating accounts would have been closed at year-end to respective fund accounts. Correcting entries from fund to fund may be necessary.

Board Response:

The Director reviewed appropriation payments that were made and booked in FY 2001 and FY 2002. The apparent overpayments were related to the timing of payments in one fiscal year for the following fiscal year. Although the deposits looked like there was an overpayment, all the appropriation payments were correct.

3. Contribution Rates

Although the sample tested a 5% error rate, there may be other issues with the membership contribution rates, as referenced in the report of actuarial data for active and retiree/survivor generated by PERAC. This report has not been reviewed for any other possible errors that have been identified.

Newburyport Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

Recommendation:

The membership records should be reviewed by the Director to determine the accuracy of the PERAC report of actuarial data for active and retiree/survivor contribution rates. This review should also include the 2% over \$30,000 contributions.

Board Response:

The Board has purchased the TACS payroll deduction module, which will enable payroll deductions files to be imported directly into the system. This program is currently being converted to the system. Any discrepancy in deduction rates will be noted immediately through the software program.

4. Current Retirees

Although the amount the retirees are receiving is confirmed by the amount shown on PERAC's approval letter, and the three-year average salary and creditable service have been verified to the employee payroll, there is no department-head approval for salary verification in the member's file.

Recommendation:

Department-heads should provide the Director with their signature and salary verification.

Board Response:

The Board is now sending a letter to department heads requesting verification of salaries for all new retirees.

5. Fiduciary Bonding

An employee dishonesty insurance policy covers the Retirement System for \$500,000. Regulation 840 CMR 17.01 requires that "all board members and staff be bonded in an amount sufficient to provide reasonable protection against losses due to fraud and dishonesty and each shall be bonded for no less than 10% of the amount of the fund or \$500,000."

Recommendation:

The Retirement System must take appropriate steps to obtain adequate insurance coverage to comply with Regulation 840 CMR 17.01.

Board Response:

The Board has requested Cray-Dowd to include the Newburyport Retirement System in the MACRS fiduciary insurance policy.

6. Office Space

The office space that the Retirement Director uses does not provide full confidentiality to members who seek retirement counseling in person or by telephone. One door of the office

Newburyport Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

opens to the City Auditor's Office and the other door opens to the hallway. The open space above the 'half-wall' between the City Auditor's Office prevents privacy when counseling in person or by telephone.

Recommendation:

PERAC memorandum dated June 9, 2003 entitled 'Privacy and Security of Boards' Records, Documents and Communications' discusses the need for retirement offices to give adequate operating space to conduct the daily operations in private. It is recommended that the Newburyport Retirement Board consider the possible use of apparent nearby unused rooms for office space.

Board Response:

The Board's office has moved to a new location which provides an area where members and retirees can be counseled in private.

7. Filing System

Retirement System files are stored in an unlocked area above the auditorium in a public place. In addition, retirement files are co-mingled with other city department files.

Recommendation:

The Retirement System should completely reorganize its filing system and make sure that all retirement data is locked at the end of the day as well as stored in fireproof containers. The retirement system may want to review its retention schedule to ensure compliance with the Secretary of State guidelines.

Board Response:

The Board is looking into options for possibly having old records placed on micro-fiche for storage.

8. Minutes

A. Cash account reconciliations or trial balance reviews are not mentioned in Board Minutes.

B. The minute book contained blank pages.

Recommendations:

A. Review the reconciliation of cash accounts (and continue reviewing the trial balance) at monthly meetings.

B. Blank pages in the minutes should say, "This page intentionally left blank."

Board Response:

A. The Board is presented the month's reconciled bank statement and trial balance report at the monthly Board meeting.

Newburyport Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

B. The blank pages in the minute book now say, "This page is intentionally left blank".

9. **Board Member Attendance**

A review of the minutes revealed that the Board Chairman had a greater than twenty-five percent absentee rate during the 3-year audit period. The absentee percentages for the audit years averaged thirty-six percent.

Recommendation:

Board members are expected to attend all scheduled Board meetings. The Board may want to consider changing the times of Board meetings in order to accommodate member's schedules. An absentee rate that exceeds twenty-five percent is not considered reasonable.

Board Response:

The Board Chairman is an elected member who is unable to attend meetings during the winter months. This issue has been compounded by the fact that the other elected member has not been able to attend meetings due to an extended illness. Unfortunately, this member died earlier this year. A new member has just been elected which will help to address the attendance issue. In addition, the Board will discuss attendance requirements with the Board Chairman in order to maintain an absentee rate that does not exceed 25%.

10. **Annuity Membership Card**

In CY 2001, several refund calculations could not be verified because the retirement system did not save copies of the Yearly Annuity Savings or Membership Cards.

Recommendation:

The Annuity Membership Cards contain individual account details of each active member and 'hard copies' should be saved as backup to substantiate individual member refunds. The Board should make every effort to find this information so that refund calculations can be verified.

Board Response:

At the time of the audit the administrator was unable to locate the annuity savings cards. The cards have since been located and are being put into each member's file.

Final Determination

PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.

Newburyport Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

FOR THE PERIOD ENDING DECEMBER 31,			
ASSETS	2003	2002	2001
Cash	\$61,475	\$183,873	\$69,026
Pooled International Equity Funds	4,923,145	0	0
Pooled Domestic Fixed Income Funds	11,543,716	14,203,417	13,044,324
Pooled Alternative Investment Funds	1,805,060	0	0
PRIT Core Fund	10,649,178	9,321,873	11,457,373
Interest Due and Accrued	0	0	0
Accounts Receivable	1,285,997	1,479,349	1,237,558
Accounts Payable	(61)	0	(2,559)
TOTAL	<u>\$30,268,510</u>	<u>\$25,188,511</u>	<u>\$25,805,721</u>
FUND BALANCES			
Annuity Savings Fund	\$8,494,782	\$7,876,210	\$8,272,353
Annuity Reserve Fund	4,530,139	4,364,331	3,207,178
Pension Fund	4,324,637	4,709,180	4,817,558
Military Service Fund	18,267	18,086	17,836
Expense Fund	0	0	0
Pension Reserve Fund	<u>12,900,685</u>	<u>8,220,705</u>	<u>9,490,797</u>
TOTAL	<u>\$30,268,510</u>	<u>\$25,188,511</u>	<u>\$25,805,721</u>

Newburyport Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2000)	\$7,532,727	\$3,089,267	\$4,889,883	\$17,504	\$0	\$10,334,165	\$25,863,545
Receipts	1,313,498	92,481	2,427,745	333	160,852	2,938	3,997,846
Interfund Transfers	(425,680)	426,344	0	0	0	(664)	0
Disbursements	<u>(148,192)</u>	<u>(400,914)</u>	<u>(2,500,070)</u>	<u>0</u>	<u>(160,852)</u>	<u>(845,642)</u>	<u>(4,055,670)</u>
Ending Balance (2001)	8,272,353	3,207,178	4,817,558	17,836	0	9,490,797	25,805,721
Receipts	1,370,842	107,501	2,540,606	250	162,202	3,132	4,184,533
Interfund Transfers	(1,435,826)	1,433,930	0	0	0	1,897	(0)
Disbursements	<u>(331,159)</u>	<u>(384,278)</u>	<u>(2,648,983)</u>	<u>0</u>	<u>(162,202)</u>	<u>(1,275,121)</u>	<u>(4,801,743)</u>
Ending Balance (2002)	7,876,210	4,364,331	4,709,180	18,086	0	8,220,705	25,188,511
Receipts	1,364,314	126,611	2,759,311	181	200,243	4,679,980	9,130,641
Interfund Transfers	(574,733)	574,733	0	0	0	0	0
Disbursements	<u>(171,009)</u>	<u>(535,536)</u>	<u>(3,143,855)</u>	<u>0</u>	<u>(200,243)</u>	<u>0</u>	<u>(4,050,643)</u>
Ending Balance (2003)	<u>\$8,494,782</u>	<u>\$4,530,139</u>	<u>\$4,324,637</u>	<u>\$18,267</u>	<u>\$0</u>	<u>\$12,900,685</u>	<u>\$30,268,510</u>

Newburyport Retirement System

STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2003	2002	2001
Annuity Savings Fund:			
Members Deductions	\$1,045,013	\$997,342	\$908,219
Transfers from other Systems	229,329	242,867	260,206
Member Make Up Payments and Redeposits	11,673	20,371	5,118
Investment Income Credited to Member Accounts	<u>78,299</u>	<u>110,261</u>	<u>139,955</u>
Sub Total	<u>1,364,314</u>	<u>1,370,842</u>	<u>1,313,498</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>126,611</u>	<u>107,501</u>	<u>92,481</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	38,239	32,041	25,088
Received from Commonwealth for COLA and Survivor Benefits	135,020	138,749	142,560
Pension Fund Appropriation	<u>2,586,052</u>	<u>2,369,816</u>	<u>2,260,097</u>
Sub Total	<u>2,759,311</u>	<u>2,540,606</u>	<u>2,427,745</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited Military Service Fund	<u>181</u>	<u>250</u>	<u>333</u>
Sub Total	<u>181</u>	<u>250</u>	<u>333</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>200,243</u>	<u>162,202</u>	<u>160,852</u>
Sub Total	<u>200,243</u>	<u>162,202</u>	<u>160,852</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	3,462	3,132	2,938
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	267	1,897	403
Excess Investment Income	<u>4,676,251</u>	<u>(1,275,121)</u>	<u>(845,642)</u>
Sub Total	<u>4,679,980</u>	<u>(1,270,092)</u>	<u>(842,301)</u>
TOTAL RECEIPTS	<u>\$9,130,641</u>	<u>\$2,911,309</u>	<u>\$3,152,607</u>

Newburyport Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

FOR THE PERIOD ENDING DECEMBER 31,			
Annuity Savings Fund:	2003	2002	2001
Refunds to Members	\$68,064	\$153,780	\$27,114
Transfers to other Systems	<u>102,945</u>	<u>179,276</u>	<u>121,481</u>
Sub Total	<u>171,009</u>	<u>333,055</u>	<u>148,595</u>
Annuity Reserve Fund:			
Annuities Paid	469,507	384,278	365,241
Option B Refunds	<u>66,030</u>	<u>0</u>	<u>35,673</u>
Sub Total	<u>535,536</u>	<u>384,278</u>	<u>400,914</u>
Pension Fund:			
Pensions Paid	0	0	0
Regular Pension Payments	2,192,794	1,684,990	1,606,188
Survivorship Payments	117,977	103,069	73,391
Ordinary Disability Payments	57,196	50,579	58,289
Accidental Disability Payments	677,250	590,532	536,683
Accidental Death Payments	12,684	9,136	8,780
Section 101 Benefits	14,417	6,832	6,425
3 (8) (c) Reimbursements to Other Systems	71,536	65,096	67,754
State Reimbursable COLA's Paid	0	132,746	136,556
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>6,004</u>	<u>6,004</u>
Sub Total	<u>3,143,855</u>	<u>2,648,983</u>	<u>2,500,070</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	15,000	13,750	14,250
Salaries	75,455	45,583	43,739
Legal Expenses	0	0	0
Medical Expenses	0	0	0
Fiduciary Insurance	0	422	0
Travel Expenses	1,349	23	25
Service Contracts	6,076	0	0
Administrative Expenses	2,210	13,402	21,461
Furniture and Equipment	15,322	8,830	1,590
Management Fees	84,831	80,191	79,787
Custodial Fees	0		
Consultant Fees	<u>0</u>		
Sub Total	<u>200,243</u>	<u>162,202</u>	<u>160,852</u>
TOTAL DISBURSEMENTS	<u>\$4,050,643</u>	<u>\$3,528,519</u>	<u>\$3,210,431</u>

Newburyport Retirement System

INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2003	2002	2001
Investment Income Received From:			
Cash	945.13	1309.27	\$2,867
Short Term Investments	0	0	0
Fixed Income	0	0	0
Equities	0	0	0
Pooled or Mutual Funds	<u>647,913</u>	<u>782,859</u>	<u>1,025,424</u>
Commission Recapture			
TOTAL INVESTMENT INCOME	<u>648,858</u>	<u>784,169</u>	<u>1,028,291</u>
Plus:			
Realized Gains	564,774	54,788	110,573
Unrealized Gains	5,194,833	3,132,260	3,841,775
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>0</u>		
Sub Total	<u>5,759,606</u>	<u>3,187,048</u>	<u>3,952,348</u>
Less:			
Realized Loss	(115,129)	(611,351)	(273,480)
Unrealized Loss	(1,211,750)	(4,254,772)	(5,159,181)
Sub Total	<u>(1,326,879)</u>	<u>(4,866,123)</u>	<u>(5,432,661)</u>
NET INVESTMENT INCOME	<u>5,081,586</u>	<u>(894,906)</u>	<u>(452,022)</u>
Income Required:			
Annuity Savings Fund	78,299	110,261	139,955
Annuity Reserve Fund	126,611	107,501	92,481
Military Service Fund	200,243	162,202	160,852
Expense Fund	<u>181</u>	<u>250</u>	<u>333</u>
TOTAL INCOME REQUIRED	<u>405,335</u>	<u>380,214</u>	<u>393,620</u>
Net Investment Income	<u>5,081,586</u>	<u>(894,906)</u>	<u>(452,022)</u>
Less: Total Income Required	<u>405,335</u>	<u>380,214</u>	<u>393,620</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$4,676,251</u>	<u>(\$1,275,121)</u>	<u>(\$845,642)</u>

Newburyport Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$61,475	0.21%	100
Short Term	0	0.00%	100
Fixed Income	0	0.00%	40 - 80
Equities	0	0.00%	40
Pooled International Equity Funds	4,923,145	16.99%	
Pooled Domestic Fixed Income Funds	11,543,716	39.83%	
Pooled Alternative Investment Funds	1,805,060	6.23%	
PRIT Core Fund	<u>10,649,178</u>	<u>36.74%</u>	100
GRAND TOTALS	<u>\$28,982,574</u>	<u>100.00%</u>	

For the year ending December 31, **2003**, the rate of return for the investments of the **Newburyport** Retirement System was 21.29%. For the five year period ending December 31, **2003**, the rate of return for the investments of the **Newburyport** Retirement System averaged 3.17%. For the nineteen-year period ending December 31, **2003**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Newburyport** Retirement System was 9.38%.

Newburyport Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

The Newburyport Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

December 11, 1991

- 16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one year .08% of the value of the fund.

May 2, 1996

- 20.03(1) Equity investments shall not exceed 50% of the total market value of the portfolio at the time of purchase.

September 3, 1997

- 20.03(1) Equity investments shall not exceed 60% of the total market value of the portfolio at the time of purchase.

Newburyport Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Newburyport** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Newburyport Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Newburyport Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Newburyport Retirement System has not submitted any supplementary membership regulations.

Newburyport Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Auditor who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: William Squillace

Appointed Member: Christopher R. Sullivan Mayor Appointment

Elected Member: Franklin Spaulding, Chairman Term Expires: 12/4/05

Elected Member: Paula Fowler Term Expires: 12/16/07

Appointed Member: Maura L. Perkins Term Expires: 1/23/06

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$500,000
Elected Member:)	HANOVER INSURANCE
Appointed Member:)	
Staff Employee:)	

Newburyport Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **John Hancock** as of **January 1, 2001**.

The actuarial liability for active members was	\$21,626,174
The actuarial liability for vested terminated members was	0
The actuarial liability for non-vested terminated members was	249,185
The actuarial liability for retired members was	<u>23,525,117</u>
The total actuarial liability was	45,400,476
System assets as of that date were	<u>25,863,545</u>
The unfunded actuarial liability was	<u>\$19,536,931</u>
The ratio of system's assets to total actuarial liability was	57.0%
As of that date the total covered employee payroll was	<u>\$10,763,083</u>

The normal cost for employees on that date was 7.80% of payroll

The normal cost for the employer was 7.00% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.50% per annum

Rate of Salary Increase: 5.50% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2001

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2001	\$ 25,863,545	\$ 45,400,476	\$ 19,536,931	57.0%	\$ 10,661,228	183.25%
1/1/2000	\$ 25,339,849	\$ 42,531,583	\$ 17,191,734	59.6%	\$ 10,041,055	171.21%
1/1/1999	\$ 25,231,567	\$ 41,087,580	\$ 15,856,013	61.4%	\$ 9,517,588	166.60%
1/1/1998	\$ 21,610,180	\$ 36,786,609	\$ 15,176,429	58.7%	\$ 8,942,185	169.72%
1/1/1997	\$ 18,420,990	\$ 34,971,218	\$ 16,550,228	52.7%	\$ 8,476,001	195.26%

Newburyport Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Superannuation	7	8	13	9	8	9	8	7	28	12
Ordinary Disability	0	0	0	2	0	0	0	0	0	0
Accidental Disability	0	0	2	1	2	1	0	3	1	0
Total Retirements	7	8	15	12	10	10	8	10	29	12
Total Retirees, Beneficiaries and Survivors	173	177	188	188	190	190	194	197	221	224
Total Active Members	298	298	298	318	311	332	356	364	354	341
Pension Payments										
Superannuation	\$746,746	\$809,910	\$896,532	\$1,097,946	\$1,200,995	\$1,351,427	\$1,440,876	\$1,606,188	\$1,684,990	\$2,192,794
Survivor/Beneficiary Payments	54,067	60,318	41,141	68,313	61,553	71,761	70,885	73,391	103,069	117,977
Ordinary Disability	59,293	25,652	38,823	38,823	63,205	54,800	65,672	58,289	50,579	57,196
Accidental Disability	329,036	322,879	334,153	360,143	389,545	457,478	495,993	536,683	590,532	677,250
Other	287,134	244,752	243,202	257,493	249,512	244,284	235,624	225,518	219,814	98,636
Total Payments for Year	\$1,476,276	\$1,463,511	\$1,553,851	\$1,822,719	\$1,964,809	\$2,179,750	\$2,309,049	\$2,500,070	\$2,648,983	\$3,143,854

PERAC

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